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**Subject:** Bilateral Presidential Commission: Innovation Working Group Second Meeting in Moscow

**1. Summary:** On October 30, the Innovation Working Group of the U.S.-Russia Bilateral Presidential Commission held its second meeting at the "Hypercube" in Moscow, the first completed building of the Russian government's flagship innovation project, Skolkovo. U.S. Co-Chair Undersecretary for Economic Growth, Energy and the Environment Robert Hormats said U.S.-Russia collaboration on innovation would strengthen U.S.-Russian relations, enrich the work of both countries and contribute positively to innovation in the world. Russian Co-Chair Deputy Prime Minister Vladislav Surkov expressed optimism for the work of the Group and stressed the value developing a concrete work plan to move this initiative forward. The co-chairs listened to specific proposals for cooperation including in the field of global satellite navigation systems, enhanced U.S.-Russian university partnerships based on economic clusters in both countries, facilitating connections between U.S. and Russian start-up companies, and others. While there was general agreement about the merit of the proposals, concrete next steps are still to be defined. At the end of the day, U.S. Co-Coordinator Lorraine Hariton, Special Representative for Business and Commercial Affairs and Russian Co-Coordinator Oleg Fomichev, Deputy Minister of Economic Development signed an earlier agreed-upon work plan.

**2. (SBU) Summary continued:** The Group also discussed progress since its March meeting in Silicon Valley on its three main priorities: supporting a legal framework for innovation; developing the commercialization chain, and best practices in developing innovation centers and regional innovation clusters. The entire day-long meeting was open to the press. On October 29, the Ministry of Economic Development arranged a tour of the joint nuclear research facility and Special Economic Zone in Dubna. End summary.

#### **Co-Chairs Hear New Proposals**

**3. (SBU)** Presiding over a special session dedicated to identifying new potential areas of cooperation, U.S. Co-Chair Undersecretary for Economic Growth, Energy and the Environment Robert Hormats praised the potential of the Innovation Working Group (IWG) to bring together U.S. and Russian scientists, teachers, students and entrepreneurs to help our economies remain competitive in the global marketplace for ideas and talent. Russian Co-Chair Deputy Prime Minister Surkov was optimistic about the work of the Group and stressed the need to agree on concrete projects. Victor Vekselberg, President of the Skolkovo Foundation also attended this session. Five specific proposals for cooperation were presented. Vitaly Davydov, Deputy Head of the Federal Space

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Agency Roscosmos presented an idea for interoperability for GPS and GLONASS navigational systems, including the installation of GLONASS monitoring stations in the U.S. Dan Davidson, President of American Councils made a proposal based on the successful partnership between Nizhny Novgorod and the Maryland bio-tech corridor to expand cooperation between leading Russian and U.S. universities in regions identified as “innovative regions” by the Ministry of Economic Development. Alexey Sitnikov, Vice President of the Skolkovo Institute of Science and Technology presented a proposal to create a joint U.S.-Russia “Visiting Committee” that could conduct assessments of innovation development programs in Russian universities and explore areas for cooperation with U.S. universities. Cathy Campbell, President of CRDF Global, suggested creating partnerships and fostering links between Russian and U.S. high tech start-ups. Igor Fedyukin, Deputy Minister of Education and Science, requested assistance in gaining participation of U.S. universities in the Russian government’s “Global Education Initiative” which will dramatically increase Russian government grants to support education, including at universities abroad.

4. (SBU) There was general agreement that the five proposals presented had merit and no one raised objections (which was interpreted by the Russian side as acceptance of these proposals). The exact process for moving these projects forward was not addressed. (Note: The U.S. and Russian co-coordinators will need to develop a prioritization of the projects, and decide on the how they will be implemented and by whom. These new topics will need to be addressed in addition to the signed workplan that already details a number of areas of cooperation. End note.)

#### **Improving the Legal Framework for Innovation**

5. (SBU) One of three main directions for the Innovation Working Group (IWG) is improving the legal framework for innovation. IWG member and former Baker McKenzie partner Jim Hitch presented the latest developments on this topic. The American Bar Association (ABA) has gathered a group of leading U.S. and Russian attorneys to make recommendations to the IWG on concrete and specific legislation that could be amended to improve the framework for the development of innovation. Recommendations will focus on Russian as well as U.S. law. ABA’s analysis builds on a study conducted by the American Chamber of Commerce in Russia which asked U.S. and Russian companies to identify impediments to starting and growing innovative businesses. Given the results of AmCham’s survey, the ABA’s recommendations will likely focus on five key areas of law: customs law, government procurement, intellectual property law, research and development law and tax law. The recommendations will be presented to the IWG in March 2013.

#### **Russia’s priorities for Intellectual Property (IP) protection**

6. (SBU) There was general agreement that getting the IP regime right in Russia will be vital for supporting indigenous innovation. Skolkovo Foundation Vice President Igor Drozdov presented some of the legal reforms Skolkovo is proposing for Russian IP law. Skolkovo will not pursue a specialized IP environment for residents of Skolkovo, rather they are working to improve the overall Russian legal system for IP protection. Drozdov mentioned several priorities for IP changes: implementation of a “fair use” criteria, providing libraries the rights to digitize some works without prior rightsholders’ consent, providing higher education institutes the rights to transfer IP, allowing licensing of patent applications and allowing for IP-related disputes (like copyrights) to be settled by the special Intellectual Property Court.

#### **Development of the Commercialization Chain**

7. The second priority area of work for the Innovation Working Group is the development of the commercialization chain, which was discussed in two sessions on technology entrepreneurship and growing global businesses. Both U.S. and -Russian discussants highlighted the importance of mentorship and education in establishing successful startups. John Harthorne, CEO and Founder of MassChallenge, the largest ever startup accelerator, provided an insightful case study, emphasizing the significance of political willpower and the need to provide an environment that supports creativity – one that encourages individual entrepreneurs versus a structured, top-down mechanism. He argued that mentorship is the single most important ingredient for startups, even more central than funding. Harthorne hypothesized that with the right team in place and with proper mentorship across different areas, the funding will follow. Doug Hart of MIT commented that it’s the students who are the fundamental entrepreneurs, the ones who bring the ideas out of the labs and into action. He added that MIT has fought a system of trying to centralize innovation and recognizes the importance of diverse startup teams and

mentoring within the venture community. Sergey Gribov, Managing Partner of StartUp Access, also touched on mentorship, noting the need for entrepreneurs to share their experiences with other startups.

8. (SBU) Addressing the ability to connect with angel investors and venture funds, Nizhny Novgorod-based Kendrick White, Founder of Marchmont Capital Partners, said that proof-of-concept (POC) centers are critical for demonstrating market applicability and the value of a new technology. Session moderator Lawrence Wright of Skolkovo School of Management agreed, but noted the importance of addressing competency needs in POC and startup centers. Dan Davidson, President of American Councils for International Education, spoke of alumni significance, adding that the industry relationship is often central to entrepreneurial success. Responding to a question on best practices, Harthorne offered that startups need to have early successes and showcase them, which creates a continual cycle. At times, it's necessary to "fake the momentum" and fight the up-front inertia to counter the tendencies of initial potential partners and investors passing on an opportunity. Harthorne also stated that he wants to pilot the MassChallenge concept in Russia.

9. (SBU) Igor Agamirzian, CEO of Russian Venture Company (RVC) moderated the session on growing global businesses where U.S. and Russian majors provided guidance and best practices. Dan'l Lewin, Microsoft Corporate Vice President for the Strategic and Emerging Business Team, profiled a Microsoft program where the company provides its technology at no charge to startups and small businesses-- to date more than 2300 companies have joined the program. Microsoft sees significant opportunity in local Russian markets -- partnering with young companies that have good ideas and the potential to go global. Trevor Gunn, Medtronic Senior Director of International Relations, described Medtronic's experience in globalizing its R&D chain and its mission to be a partner in changing the ecosystem. Sergey Arkhipov, Deputy Director General of engineering giant OMZ Group, emphasized the need for Russian companies to shift to a creative mindset. At OMZ, innovation can be achieved with new tools and new materials and by integrating clients and suppliers into the development cycle. Arkhipov also emphasized corporate entrepreneurship -- encouraging and supporting employee initiatives and technology transfer partnerships. IBM's Deborah Magid, Director of Software Strategy for IBM Venture Capital Group, said that innovation is technology applied in a business context. IBM's Innovation Centers enable the company to build ecosystems that support success for their clients and partners.

### **Clusters**

10. (U) The third main direction of the work of the IWG is developing innovation centers and regional innovation clusters. Artyom Shardrin, Director of the Department of Innovation Development in the Ministry of Economic Development presented the results of a competition held by the Ministry to identify the 25 most innovative regions of Russia. These regions submitted proposals for federal budget funding which amounts to roughly \$15 million. Shardrin stressed his desire to see intensified cooperation with U.S. clusters. In particular, he mentioned the idea of road shows (bring representatives from Russian clusters to the U.S.), joint R&D projects, joint educational programs, trainings or other initiatives. Ivan Bortnik, Executive Director of the Association of Innovative Regions of Russia, thanked the U.S. side for conducting a webinar with Harvard Business School on October 9, 2012 and asked the U.S. for additional proposals for bringing together U.S. and Russian clusters.

### **IWG Visit to Dubna**

10. (U) On October 29, the Ministry of Economic Development organized a trip to Dubna, a city of 70,000 located about 75 miles north of Moscow on the Volga river, to visit the Joint Institute for Nuclear Research (JINR) and the Dubna Special Economic Zone (SEZ). Approximately 12 Russian and American Working Group members took part in the trip, including State Department's Special Representative for Commercial and Business Affairs, Lorraine Hariton.

11. (U) JINR Vice Director Mikhail Itkis gave a short overview presentation on the institute and its key facilities. The institute has made a name for itself in the world of particle physics, literally, in the form of the synthetic element with atomic number 105 known as Dubnium, and more recently, through efforts in first synthesizing element 114, now called Flerovium after Georgy Flerov, the founder of JINR. The Nuclotron heavy ion accelerator has been one of the flagship facilities at the lab, and the Institute is working on a high-tech new generation heavy ion accelerator called NICA, which is based on a novel magnetic technology and a liquid helium superconductor. The institute has 18 member states (the U.S. is not a member), plus nearly 5000 staff members,

of which 1200 are scientists and 2000 are engineers or technicians.

12. (U) The group visited two sites in the Dubna special economic zone. One of these is home to the new production facility of Trackpore Technology, an impressive high tech company which produces blood filtration devices using a film covered with nanoscale pores. The other has several resident buildings and the Innovation-Technology Center office/support building, where the group was given a presentation on the Dubna SEZ and met approximately 10 resident companies who showed their products. There are currently 89 resident companies in the SEZ, with 239 planned. Residents can build their own buildings on low-cost leased land plots or rent office space in existing buildings. The Dubna Nanocenter is also located on the site.

#### **Comment**

13. (SBU) On the topic of innovation, Russian desire for cooperation with the United States is nearly insatiable. On one hand, the IWG benefits from the involvement of private sector members, who are eager to engage directly with Russian companies and grow their business. On the other, the Russian government is the driver behind much of the innovation here and consequently expects broad representation of U.S. government departments and agencies which can't always be accommodated, and in some cases doesn't make sense. Differing visions on how best to support innovation, combined with lack of resources and staffing will continue to be challenges for this Group.

#### **Addendum: U.S. Participants**

14. (U) U.S. participants in the 2<sup>nd</sup> meeting of the Innovation Working Group included Robert Hormats, Undersecretary for Economic growth and the Environment and co-chair of the Working group; Lorraine Hariton, Special Representative for Commercial and Business Affairs and Coordinator of the Working Group; Charge d'Affaires Sheila Gwaltney; Paul Betsis, General Manager for Russia, Cisco Systems; Cathy Campbell, President and CEO of CRDF Global; Maryia Dauhuliova, Director of the Moscow office of the U.S.-Russia Business Council; Dan Davidson, President, American Councils for International Education; Trevor Gunn, Senior Director, International Relations, Medtronic, U.S. Embassy; Douglas Hart, Co-chair, joint MIT School of Engineering and School of Management; John Hawthorne, Founder and CEO of Mass Challenge; Jim Hitch, Attorney, Baker & McKenzie LLP; Alexandra Johnson, Managing Director, DFJ VTB Aurora; Seneca Johnson, Hormats Staff, Department of State; Fred Ledbetter, Office Director, Monitor Group and Co-Chair of AmCham Innovation Working Group; Dan'l Lewin, Corporate Vice President, Microsoft; Deborah Magid, Director, IBM; Stephanie Marrus, Director Entrepreneurship and Marketing, University of California San Francisco; Mark Meyer, Science and Technology Officer, U.S. Embassy; Rebecca Neff, Deputy Head of Economic Section, U.S. Embassy; Tracy Perrelli, Russia BPC Officer, Department of State; Igor Pozhitkov, Senior Director, American Chamber of Commerce; Justin Reynolds, BPC Coordinator, U.S. Embassy; Boris Sokolov, Director of Global Partners and Technologies for Russia and the CIS, Boeing; Alexander Tanachev, Legal Council, Cisco Systems; Donald Townsend, Intellectual Property Attaché, Department of Commerce; Edward Verona, President and CEO of U.S.-Russia Business Council; Kendrick White, Managing Principal, Marchmont Capital Partners; Phillip Windemuth, Partner, Orrick, Herrington and Sutcliffe LLP; Lawrence Wright, Professor, Skolkovo School of Management and Co-Chair of the AmCham Innovation Working Group and Andrey Zuzin, Project Director Skolkovo, Cisco Systems.

#### **Russian participants**

15. (U) Russian participants included Vladislav Surkov, Deputy Chairman of the Government of the Russian Federation and Co-Chair of the Working Group; Oleg Formichev, Deputy Minister of Economic Development and Coordinator of the Working Group; Igor Agamirzian, CEO and Chairman of the Executive Board, Russian Venture Company; Sergei Andreev, President and Director General, ABBYY Group; Sergei Arkhipov, Deputy Director General for Innovation, OMZ Group; Ivan Bortnik, Executive Director, Association of Innovative Regions of Russia; Alexander Chernov, Vice President for Strategic Communications and advertising, Skolkovo Foundation; Vitaly Davydov, Deputy Head of the Federal Space Agency (Roscosmos); Igor Drozdov, Senior Vice President, Skolkovo Foundation; Igor Fedyukin, Deputy Minister of Education and Science; Sergey Gribov, Managing Partner, StartUp Access; Alexander Gurko, President of Non-profit Partnership for the Development and Use of Satellite Navigation Technologies; Dmitry Korotkov, Senior Counsel, Ministry of Education and Science; Denis Kovalevich, Executive Director of Nuclear Cluster, Skolkovo Foundation; Vladimir Kulchitsky,

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President, PROGRESSTECH Group; Vladimir Lebedev, Aide to the Ambassador-at-Large, E. Malayan; Alexander Lupachev, Chief Investment Officer, Skolkovo Foundation; Eduard Malayan, Ambassador-at-Large, Ministry of Foreign Affairs; Kirill Mikhailov, Head of Division, Department of North America, Ministry of Foreign Affairs; Dmitry Peskov, Director of Young Professional Stream, Agency for Strategic Initiatives (ASI); Alexander Platonov, Head, EnterRussia.ru; Vladimir Polutin, Project Director for R&D Center, JSC TVEL; Maxim Romanov, Head of Division for Innovation Infrastructure, Department of Innovation Development, Ministry of Economic Development; Seda Pumpyanskaya, Vice President for International Relations and Communication, Skolkovo Foundation; Pavel Rudnik, Deputy Director, Department of Innovation Development, Ministry of Economic Development; Alexander Ruzayev, Deputy Director for Innovation Development, Joint Institute for Nuclear Research; Nikolai Savchuk, Co-Founder and Member of Board of Directors, KhimRar Center for Innovation Technologies; Grigory Senchenya, Advisor to the Minister of Economic Development; Artyom Shadrin, Director, Department of Innovation Development, Ministry of Economic Development; Maria Siladiy, Manager, Russian Venture Company; Alexei Sitnikov, Vice President for Administration and Development, Skolkovo Institute of Science and Technology; Natalia Tsarevskaya, Director, BIT Competition; Anastasia Tyurina, Head of Business Incubator, National Research University, Higher School of Economics; Viktor Vekselberg, President, Skolkovo Foundation; Anna Voloshina, Consultant, Department of Innovation Development, Ministry of Economic Development; Mikhail Yakushev, Vice President, Mail.Ru Group and Chairman of the Board, Russian Association of Electronic Communications.

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